

APEC AND AMERICAN TRADE INTERESTS IN ASIA

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Chairman Gilman, Congressman Gejdenson, Members of the Committee on International Relations, thank you very much for inviting me to testify on our goals and accomplishments this year in the Asia-Pacific Economic Cooperation (APEC) forum.

This has been an active year in APEC. Our work in the first half of 1999, culminating in the Trade Ministerial conference in Auckland last June, has been productive, confirming APEC's value as a method of advancing our interest in a more open and healthy Pacific economy. Today I would like to review with you the results of the June Ministerial, our plans for the Leaders Meeting in September, and the work ahead for APEC.

U.S. STAKE IN THE PACIFIC

Let me begin, however, by discussing the broader U.S. interests and policy goals in the region, and the ways in which APEC fits in with our bilateral initiatives and preparation for the new Round we expect to launch this November, when we host and Chair the WTO Ministerial Conference in Seattle.

The United States has a vital interest in an open, prosperous and stable Asia-Pacific region. Our experience in four wars in the Asia-Pacific region during the century now coming to a close demonstrates that we cannot remain unaffected by political events in East Asia. Our workers, farmers, entrepreneurs and investors depend upon growth, prosperity and open markets in Asia: the APEC members include half the world's economic production, nearly half its population, include our four largest bilateral trade partners, take over 60% of our exports, and provide nearly 67% of our imports.

Since 1993 the Clinton Administration has implemented a Pacific strategy which takes account of our broad range of interests in this region. We have maintained a strong military presence in the Pacific; supported Asian economies during the present financial crisis through our own commitment to open markets as well as involvement in recovery programs for the most-affected countries; and worked toward a trade environment which opens markets to American industrial goods, services, and agricultural products. In the trade context, the strategy President Clinton set in 1993 has worked toward these goals in four ways:

- We have sought market-opening and deregulation in Japan, Asia's largest economy,

through the negotiation of 38 market-opening agreements, commitments under the Enhanced Initiative on Deregulation and Competition Policy, enforcement of agreements including autos and auto parts, insurance, flat glass and government procurement, and addressing sectoral issues in such sectors as steel, agriculture and photographic film. This work is on-going. With Japan, work to open the economy to competition is never done.

- We have opened markets and worked to strengthen the rule of law in China, Asia's largest country and fastest-growing economy, through agreements on textiles, intellectual property, and effort to secure China's accession to the WTO on commercially meaningful terms.
- We have helped integrate the region's other transitional economies into the mainstream through WTO membership and permanent Normal Trade Relations with Mongolia; a bilateral agreement and Normal Trade Relations with Cambodia; a bilateral commercial agreement with Laos, with NTR pending; and most recently an agreement in principle with Vietnam.
- And we have, beginning with President Clinton's invitation to the heads of government of all APEC members, to gather in Seattle for the first Leaders Meeting in 1993, worked toward creation of a broader set of principles and a program of specific action that will ensure open markets, promote sustainable growth and advance the rule of law throughout the region.

THE APEC VISION SINCE 1993

The Seattle event was the first in a series of Leaders Meetings conducted annually ever since. In the second meeting, in Indonesia in 1994, APEC members adopted the "Bogor Declaration," calling for "free and open trade" in the region by 2010 for developed countries and 2020 for developing nations.

This is an ambitious goal, made still more complex by the size and diversity of APEC. The forum now joins twenty-one economies (the U.S., Canada, Mexico, Peru, Chile, Russia, Japan, South Korea, China, Taiwan, Hong Kong, Vietnam, Thailand, Malaysia, the Philippines, Singapore, Brunei, Indonesia, Papua New Guinea, Australia and New Zealand) which range from advanced industrial economies to least developed nations, and from China, the largest country in the world with 1.2 billion people, to Brunei with 350,000 citizens. While the task is complex, we have nonetheless made significant progress.

- In 1996, APEC led the world in advancing the Information Technology Agreement, since adopted by the WTO, which is phasing out tariffs on \$1.5 trillion worth of trade in computers, computer equipment, semiconductors and related goods worldwide.
- Each APEC member, including the United States, has also agreed to produce an

Individual Action Plan on liberalization efforts. These set out the means by which each member economy will implement APEC's trade and investment liberalization and facilitation (TILF) goals in 15 different areas, ranging from tariffs, non-tariff barriers, services, investment, standards, competition policy, and intellectual property.

- We began a strong business-government dialogue program, addressing practical issues which affect Pacific trade and investment, including electronic commerce, customs reform and transparency, and other issues.
- We initiated an ongoing program of economic and technical cooperation (or “ecotech”) to ensure that APEC's less developed economies can take advantage of regional trade opportunities.
- And we have begun work on a fifteen-sector “Early Voluntary Sectoral Liberalization” initiative, which has led to a Mutual Recognition Agreement on telecommunications; and a proposal to reach WTO agreement on removal or harmonization of tariffs on chemicals, fish and fish products, forestry products, environmental technologies, energy equipment, gems and jewelry, medical equipment and scientific instruments, and toys. More recently, at the Auckland Trade Ministerial, APEC agreed to address barriers to food, oilseeds, fertilizer, rubber and civil aircraft in the new Round of negotiations expected to begin at Seattle this fall.

CONTEXT OF THE FINANCIAL CRISIS

The context in which APEC now meets, however, is significantly different than it was in 1993. Between 1997 and early 1999, the Pacific region suffered a financial crisis unprecedented in Asia's postwar history. While growth is now beginning to return to the region, in the past year six major APEC economies contracted by 5% or more: Thailand, Malaysia, Indonesia, Korea, Russia and Hong Kong. To put this in context, our worst recession since 1945 saw a contraction of just over 3%. Japan, the Philippines and Singapore also suffered recessions, and Chinese growth slowed.

The human effects of this have been enormous: tens of millions of people slipping into poverty and hundreds of thousands or millions of children leaving school. While national economic growth has now returned at least to Thailand and Korea, suffering from unemployment and poverty remains very powerful.

The crisis has also demonstrated once again the importance of healthy Asian markets to our own economy. While overall American growth remained high, American farmers, manufacturing export workers, and especially steelworkers, suffered significantly as a result of this crisis. Between 1996 and 1998, overall U.S. agricultural exports dropped from \$60 to \$54 billion; in 1998 the steel industry suffered from an import surge caused in large part by a sharp drop in Asian demand; and total U.S. merchandise exports to Asia fell by \$28 billion last year.

And it has demonstrated the importance of a strong world trading system. During the crisis, the strength of the WTO helped to prevent the outbreak of a cycle of protection and retaliation which would have worsened and further spread the crisis. Instead, APEC members, including ourselves, remained faithful to our commitments. This prevented enormous economic damage to our country and our farmers and working people; guaranteed to affected countries the open markets essential to their recovery; and helped avert the political tensions that can arise when economic crisis leads to trade conflicts.

Looking ahead, the long-run effects of this experience will not be clear for some time to come. It is likely, however, that the crisis will be the reference point when Asians think about trade and the international economy for years to come. Each country will reflect on the causes of the crisis, the role of IMF-led reform programs in helping to solve it, and the economic and trade policies which will prevent a similar event from happening again. Fundamentally, Asians will be choosing between outward-looking reform and transparency on one hand, and nationalism and protection on the other. Thus, the policy decisions of the near future may well cement long-term regional trends towards reform, regional markets, and world trade.

RESULTS OF AUCKLAND MINISTERIAL

In this context, APEC's role in helping to shape policies and attitudes that respond to the crisis through reform, rather than a renewed turn toward nationalism and protection, will be absolutely crucial.

Our goal in preparing the agenda for APEC in 1999, therefore, was to capitalize on this potential role. In specific terms, we hoped to continue the momentum for the specific trade liberalization projects APEC had begun, such as Accelerated Tariff Liberalization; ensure strong APEC support for the new Round of negotiations to begin at the WTO Ministerial this November in Seattle; and strengthen the business-government dialogue; and further develop programs aimed at facilitating trade and promoting economic and financial reform.

Altogether, this agenda will help to strengthen the regional consensus for open and fair markets, and hopefully prevent a nationalist or protectionist backlash that would further damage American and Asian economies alike. By the close of the Auckland Ministerial in June, we had made important progress toward that goal.

1. Agenda for the New Round of Multilateral Trade Negotiations in the WTO

First of all, the Ministerial made a strong statement -- the first from Asian economies as a group -- in support of a strong, manageable WTO negotiating agenda which offers concrete benefits to all APEC participants.

- The Ministers called for negotiations beyond agriculture and services, (the so-called “built-in agenda”) to be completed in three years, setting agriculture, services and industrial

tariffs as the core agenda items for new negotiations.

- The Ministers also endorsed full implementation of existing WTO commitments – which is very important, since the final commitments on intellectual property, trade-related investment measures and customs valuation are scheduled to come into effect in developing countries this year.
- And we agreed to develop more specific ways in which APEC could support the WTO's forward agenda by the September Leaders Meeting. APEC is active on a wide array of issues, from trade facilitation to transparency in government procurement, electronic commerce, market access, and strengthening the system of rules under the WTO.

2. Accelerated Tariff Liberalization

The Ministerial also reaffirmed APEC's role as a practical forum for trade liberalization with a strong statement of support for harmonization or elimination of tariffs on the eight sectors we selected for early liberalization in 1997 -- the "EVSL" sectors which I referred to earlier.

Here, the Ministerial formally directed New Zealand, as APEC Chair, to continue its efforts to build support for the initiative in the WTO, and stating that an early ATL, or Advanced Tariff Liberalization, agreement on these sectors – chemicals, energy equipment; environmental goods; fish and fishery products; gems and jewelry; medical equipment and scientific instruments; toys; and forest products – would create support and momentum for the Round. We are working toward consensus at the WTO on harmonization and/or elimination of tariffs in these sectors this year.

We also agreed to take tariff elimination proposals in remaining EVSL sectors including fertilizer, rubber, civil aircraft, oilseeds and food to the WTO, to be completed during the Round either in the agricultural or the industrial tariff negotiations.

3. Regional Reform and Liberalization

And we balanced these achievements with a strengthened business-government dialogue, and the Ministerial's endorsement of a regional agenda including trade facilitation and economic and technical cooperation.

This included endorsement of the APEC Automotive Dialogue, the first regional forum on autos involving the private sector and governments, as well as work on non-tariff measures, trade facilitation and economic and technical cooperation within the other EVSL sectors.

More broadly, we endorsed a framework for strengthening the functioning of markets and help bolster the impetus to reform in the Asia-Pacific region. This will help us reinforce healthier reactions to the financial crisis, by moving APEC members forward on such issues as

transparency, corporate governance, electronic commerce and transparency in government procurement.

TOWARD THE LEADERS MEETING

Thus, we left the June APEC Ministerial with momentum for both the WTO agenda and regional liberalization and reform. We are now working with the private sector to build upon this as we approach the September Leaders Meeting.

1. WTO Agenda

With respect to the WTO, for example, we will look for the Leaders' endorsement of a new Round of WTO negotiations, with a manageable agenda focused on agriculture, services and industrial tariffs, substantial attention to implementation, institutional reform and transparency to make the WTO stronger as we approach the next century. By the time of the Seattle meeting we may also be in a position to mark achievements in moving toward completion of the ATL and several specific agreements including an extension of the Information Technology Agreement ("ITA II"), extension of the WTO's existing standstill on electronic commerce tariffs, support for capacity-building, and an agreement on transparency in government procurement.

Our work on transparency in government procurement is an especially important example. Worldwide, this will address one of the most serious obstacles to expanding U.S. sales to government buyers. It will also promote our effort to combat international bribery and corruption; and offer participating countries the chance to build confidence in governance and make better use of tax dollars. Regionally, it is a fundamentally important step if we hope to cement a consensus for a response to the crisis based on transparency, reform and liberalization rather than nationalism and resentment of outsiders.

2. Regional Agenda

We likewise will set an ambitious agenda for advancing APEC's role in regional liberalization.

Some specific measures could include strengthening private sector input to APEC's "Individual Action Plan" and "Collective Action Plan"; implementing our work to address non-tariff barriers, facilitate trade and develop economic and technical cooperation within the EVSL process; and endorsing recommendations which develop from the Auto Dialogue.

More fundamentally, we would hope for a strong endorsement of the key New Zealand theme of strengthening the functioning of markets, which will complement specific trade liberalization measures and help to cement reform in the region. The Auckland Ministerial noted several areas in which we should move ahead, including improved regulatory structures for financial markets and improved governance practices; institutional and resource capacity building;

and facilitation of trade and investment, and directed us to develop a concrete action plan in the months before the Leaders Meeting.

CONCLUSION

Altogether, then, we have a program for the months ahead which will offer significant short and long-term benefits to Americans. More fundamentally, it ensures that APEC will help the region remain on the course of reform, liberalization and openness in the aftermath of the financial crisis.

The past two years have been a severe test for the entire Asia-Pacific region. Many of the affected countries deserve a great deal of credit for policies aimed at economic reform and political liberalization. Our own commitment to economic growth, continued deregulation, maintaining an open market, and providing assistance through contributions to IMF packages and other channels have helped to avoid fearful, inward-looking reactions and a potential backlash against foreigners and the world economy.

Our aim in APEC over the coming months and years is to strengthen these healthy trends, and take the concrete actions which can make them permanent. As we look ahead toward our future national interest in an open, peaceful and prosperous Pacific region, APEC plays a key role in our strategy. We appreciate the Committee's interest in the agenda it will carry out this year and in the future, and look forward to collaborating with you in the work ahead.

Thank you very much, Mr. Chairman.